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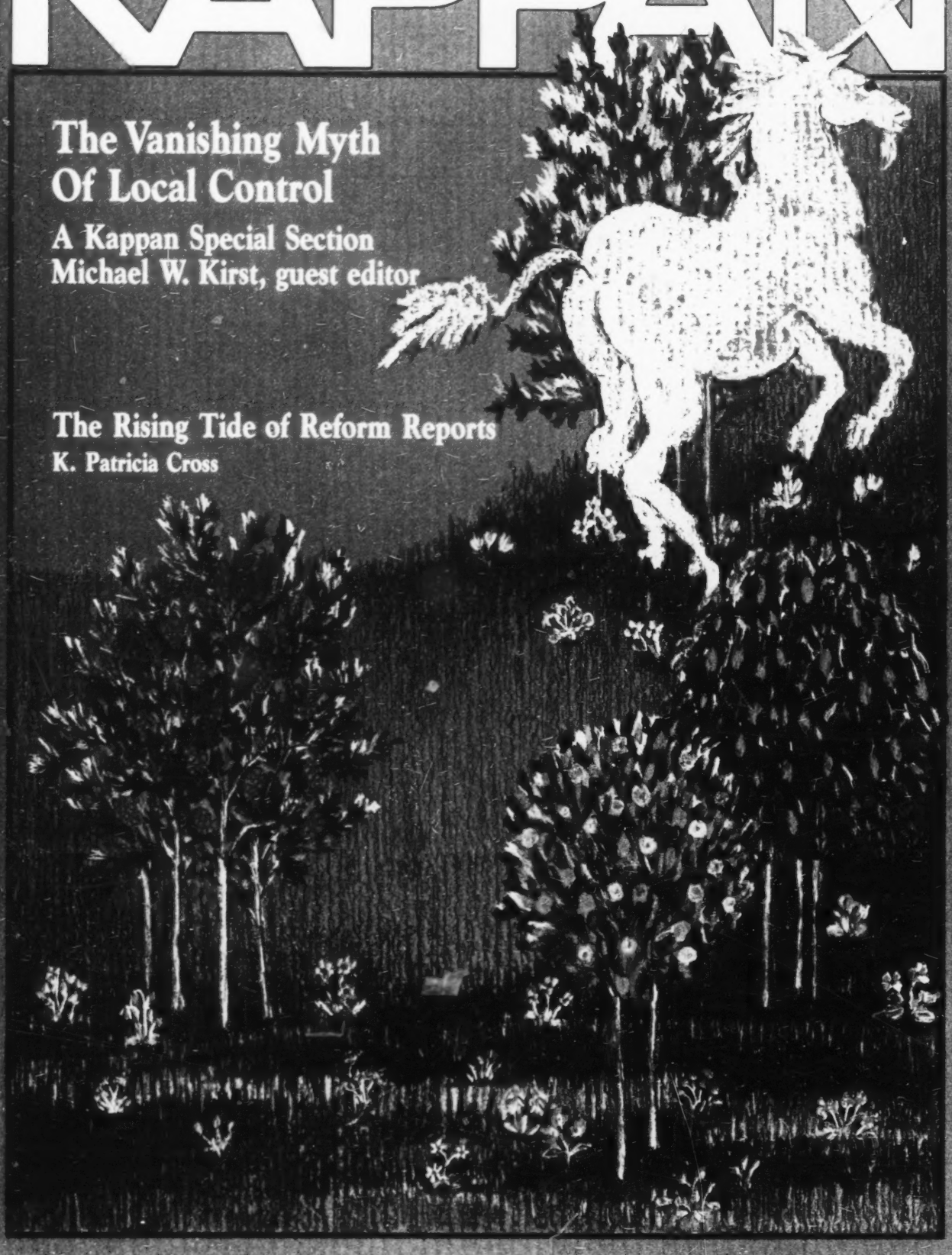
KAPPAN

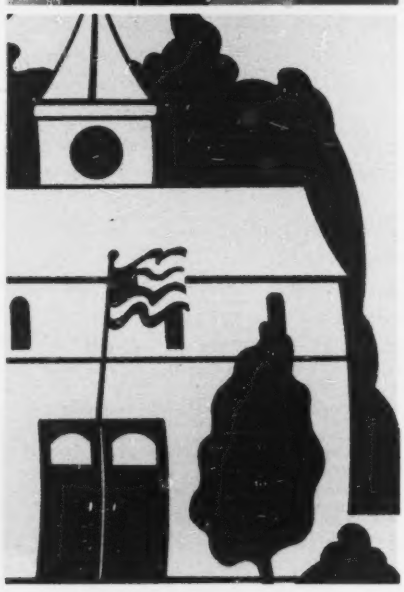
The Vanishing Myth Of Local Control

A Kappan Special Section
Michael W. Kirst, guest editor



The Rising Tide of Reform Reports

K. Patricia Cross



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KAPPAN

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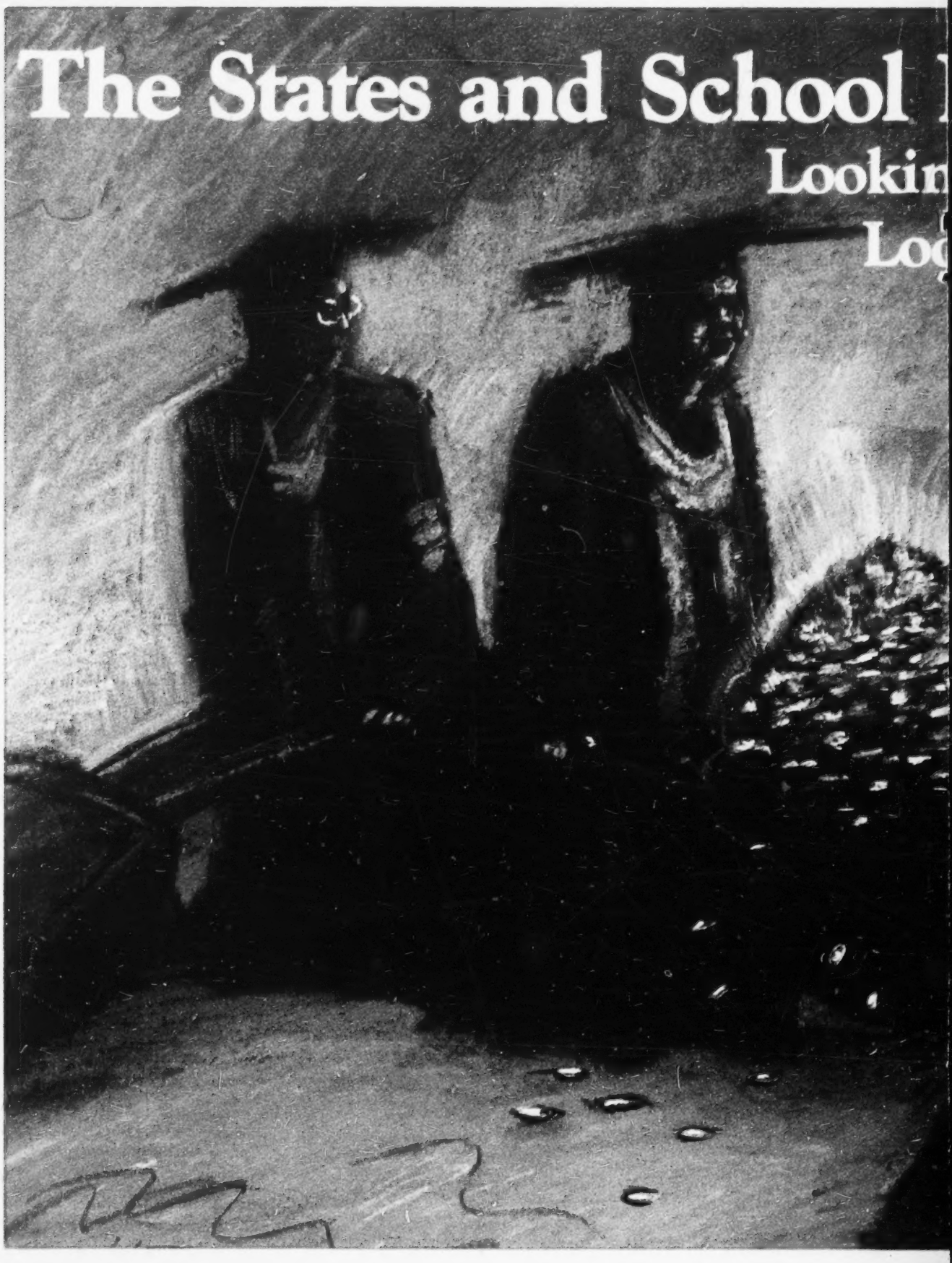
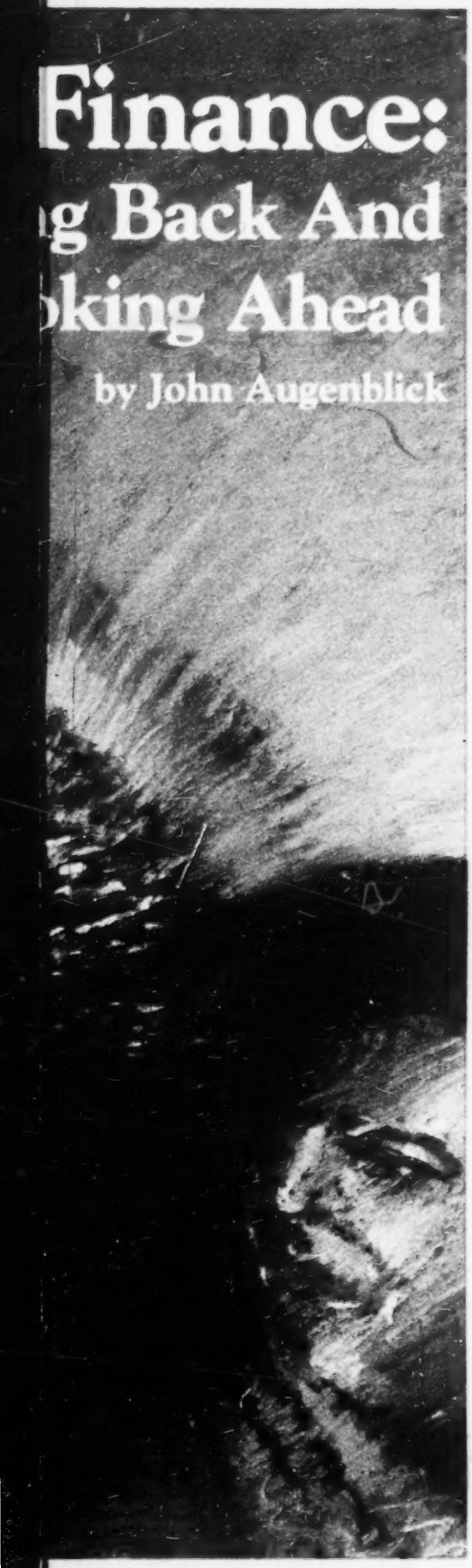


Finance: g Back And oking Ahead

by John Augenblick



How are the new initiatives for school improvement connected with school financing? Mr. Augenblick discusses how school finance systems in the states have changed in recent years and speculates on where they might go in the years to come.

DURING THE last 18 months, elementary and secondary education in the U.S. has been the object of a great deal of attention. Most of this attention has been directed toward recommending changes in the way educational services are delivered, in order to improve the schools. Some of the proposed changes would cost very little to implement; others, particularly those that deal with teacher salaries or time spent in school, could be very costly. Most of the national reports on education conveniently avoided discussing how such changes would be funded.

Recently, however, several states have begun to take steps designed to improve education. In most cases, the changes have focused on the curriculum, time spent in school, graduation requirements, teacher qualifications and training, and teacher salaries. Interestingly, the most costly changes have been made in states that have traditionally spent relatively little on education; the changes have been funded by increases in statewide taxes, most notably the sales tax.

The states have addressed the issues of school improvement and school finance independently. Funds for school improvement have been allocated apart from the formulas used to distribute the vast majority of state aid to education. Those formulas, which have been developed over the past 75 years, are designed to equitably allocate basic support and special aid for high-cost programs, considering both the needs of school districts and their widely varying abilities to support their programs. In the last 15 years more than half of the states have modified their school finance systems to make them more equitable, both in terms of the resources they provide and in terms of the tax burdens they impose.

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Linking school improvement to school finance will not be easy. As long as the funding of school improvement is distinct from general support, it is questionable whether support for school improvement can be sustained; moreover, it is possible that the effects of school improvement efforts will not be distributed equitably. This is true for several reasons: 1) legislators will be able to focus on the relationship between the funds they are providing for improvement and the effects of those improvements, which may not be forthcoming as quickly as seems politically desirable; 2) to the extent that certain taxes are earmarked to support improvement, future support would depend on the revenue made available by the taxes, which are sensitive to the strength of the economy rather than to the cost of school improvement; and 3) if the ability of districts to provide their own funds for improvement is not considered, state aid for school improvement will leave the spending gap between wealthy districts and less-wealthy districts unchanged.

However, integrating school improvement and school finance is likely to raise questions about local control. Policy makers must ask themselves whether they want teacher reimbursement systems (i.e., statewide salary schedules, career ladders, or merit pay plans), pupil/teacher ratios, or spending requirements built directly into formulas. They will also need to determine whether formulas should provide financial incentives that link the allocation of support to local school district performance or to district conformity with state-established procedures thought to be critical for school improvement.

The school finance systems of the states vary in terms of both the level of support they provide and the method used to allocate state aid. It is unlikely that all states will choose the same approach to school improvement or that they will all use the same procedure to integrate school improvement into their school finance systems. In order to understand where the states are headed, it is important to know

Illustration by Mark Brought

where they are now. In the remainder of this article I will describe how school finance systems have changed in recent years, and I will speculate about where they might go in the years to come.

LEVEL OF STATE SUPPORT

During the last five years public school revenue grew from about $81.8 billion to more than $120.4 billion, an increase of 47%. Since the number of pupils was declining — from 40.2 million in average daily attendance (ADA) in 1977-78 to 36.7 million in 1982-83 — the growth in revenue per ADA was large: from $2,035 per ADA in 1977-78 to $3,280 per ADA in 1982-83, an increase of 61%.

State support grew at a faster pace than total revenue during this same period. In 1977-78 states provided $36.1 billion, or about 44% of all revenue. In 1982-83 states provided $58.3 billion, or nearly 48.5% of all revenue. Thus state support increased by a total of 61% and by 77% in per-pupil terms.

The states vary in the percentage of all revenue they provide. In 1982-83, 12 states (Alabama, Alaska, California, Delaware, Hawaii, Idaho, Kentucky, New Mexico, North Carolina, Oklahoma, Washington, and West Virginia) provided more than 60% of the revenue for their schools. That same year, 13 states (Connecticut, Illinois, Massachusetts, Michigan, Missouri, Nebraska, New Hampshire, New Jersey, Oregon, Rhode Island, South Dakota, Vermont, and Wisconsin) provided less than 40% (nine of these states provided between 34% and 40%) of all public school revenue; the remaining 25 states provided between 40% and 60% of all revenue. In 1977-78 eight states provided more than 60% of all public school revenue, while 17 states provided less than 40% of all public school revenue.[1]

State support for public schools has become a much more important part of state budgets, despite the fact that between 1977-78 and 1982-83 only a slight increase (from 34.5% to 35.4%) occurred in the average percentage of all state expenditures devoted to public schools. In 1982-83 support for public schools consumed more than 40% of all state expenditures in 21 states and less than 30% of all state expenditures in 12 states; in 1977-78 school aid consumed more than 40% of all state expenditures in 15 states and less than 30% of all state expenditures in 15 states.[2]

Over the past few years, state expenditures for public schools have decreased slightly in relation to income. Table 1 indicates the relative standing of the states in terms of both state school aid per $1,000 of personal income and the growth or decline in that amount between 1977-78 and 1982-83. Of the 26 states in which state support for education has decreased relative to income, seven (Alabama, Illinois, Maryland, Massachusetts, New Hampshire, Rhode Island, and Wisconsin) provide low support relative to income, while two (Delaware and Utah) provide high support. Of the 24 states in which state support has increased relative to income, eight (Alaska, Hawaii, Idaho, Kentucky, New Mexico, Oklahoma, Washington, and West Virginia) provide high support relative to income, while six (Connecticut, Missouri, Nebraska, Ohio, South Dakota, and Virginia) provide low support.

Table 1. Distribution of States in Terms of the Relationship Between State Support per $1,000 of Personal Income and Change in State Support per $1,000 of Personal Income

Change in State Aid per $1,000 of Income, 1978-1983	State School Aid per $1,000 of Income in 1983		
	Low (Less Than $20)	Medium ($20 - $30)	High (More Than $30)
Increase	8	10	8
Decrease	7	17	2

Source: *State Support for Education, 1982-83* (Denver: Augenblick, Van de Water & Associates, December 1983).

The states provided nearly 57% of all *new* school revenues between 1977-78 and 1982-83. Between 1982-83 and 1983-84 the states provided 59% of the new funds available to public schools. Again, however, the proportion of new funding attributable to the states varied widely. Ten states (Alabama, Alaska, Georgia, Hawaii, Idaho, Massachusetts, Minnesota, New Mexico, North Dakota, and Utah) provided more than 100% of all new funds, which indicates that increases in state aid exceeded increases in total support and that state aid made up for losses in other sources of funding. In six states (California, Delaware, Kansas, Kentucky, Maine, and Washington), state support accounted for between 75% and 100% of all new school aid. In 13 states (Arizona, Arkansas, Colorado, Connecticut, Florida, Louisiana, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, South Carolina, and Virginia), new state aid provided between 50% and 75% of all new support for schools. New state aid accounted for between 25% and 50% of new funds in 13 states (Illinois, Iowa, Maryland, Michigan, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Texas, West Virginia, Wisconsin, and Wyoming). In seven states (Montana, Nebraska, Nevada, Oregon, South Dakota, Tennessee, and Vermont), new state funds provided less than 25% of all new funds for schools.[3]

When these figures are compared to those of earlier years, they indicate the growing importance of the states in providing support for schools: between 1977-78 and 1980-81 only 10 states provided more than 75% of the new funds for schools; this number grew to 11 states for the period from 1980-81 to 1981-82, 14 states for the period from 1981-82 to 1982-83, and 16 states for the period from 1982-83 to 1983-84. Similarly, a decrease has occurred in the number of states providing less than 25% of the new funds for schools: between 1977-78 and 1980-81, 15 states were responsible for less than 25% of the new funds for schools, but less than half that number of states had as low a level of commitment in the period from 1982-83 to 1983-84.[4]

DECLINING RELIANCE ON PROPERTY TAXES

The reduction of property taxes proved to be one of the major stimuli to school finance reform in the 1970s. At the time, property taxes were the most unpopular of all taxes; most policy makers viewed them as regressive, i.e., placing a relatively higher tax burden on citizens with low incomes. Dramatic increases in property values (in some cases linked to reassessments), combined with a perception that school expenditures were out of control, led to concern about the level of property taxes. Between 1971 and 1981 property taxes increased from $36.7 billion to $72 billion; despite this increase, property taxes declined from 15% of all government tax revenues to 11%. During the same period, property taxes decreased from an average of 1.98% of market value to 1.26% of market value.[5] The figures in Table 2 indicate the annual growth in property taxes relative to other taxes between 1973 and 1981.

In part, this reduction in property tax

revenue resulted from limitations imposed on property assessments, restrictions on property tax rates or rate increases, and controls placed on local government spending. Currently, 39 states use one or more types of limitations to control the spending and tax authority of local governments, including school districts. In 34 states, property tax collections are limited; 13 states place limits on property tax rates; 11 states have revenue or spending limitations; and five states place limits on increases in property assessments. In addition, 32 states use "circuit breakers" to limit the burden of property taxation relative to family income, although in only seven of these states are all homeowners and renters eligible for the appropriate reduction.[6]

As a result of these limitations, local support for schools – most of which is derived from property taxes – has decreased in the last decade. In 1972-73 local support provided more than 60% of all public school revenue in 16 states; by 1982-83 local support was that high in only four states (Nebraska, New Hampshire, South Dakota, and Wyoming). In 1972-73 local support provided less than 40% of all public school revenue in 15 states; by 1982-83 local support was that low in 22 states.

The property tax burden for schools also decreased relative to personal income. In 1972-73 local support for schools was more than $30 per $1,000 of personal income in 21 states; by 1982-83 local support was that high in only 11 states (Michigan, Nebraska, New Hampshire, New Jersey, New York, North Dakota, Oregon, South Dakota, Vermont, Wisconsin, and Wyoming). In 1972-73 local support for schools was less than $20 per $1,000 of personal income in 15 states; by 1982-83 there were 20 states with property tax burdens that low.[7]

CHANGES IN METHODS OF SUPPORT

Over the last 15 years, the approaches used by states to allocate support to local school districts have become increasingly complex in order to meet the widely varying needs of all districts. In the last half of the 19th century, when states first began to provide support for the schools, simple approaches were used that provided the same amount of aid per pupil, per teacher, or per classroom. Later, policy makers recognized the importance of tying state aid to the fiscal capacity of school districts, the cost of providing a wide range of educational programs, the size of school districts, and a host of other factors that vary among the large number of school districts operating in most states (half of the states have more than 200 school districts). In order to meet these objectives, new systems of distributing state aid have been developed. Though there are many similarities in the structure of the 50 systems of state aid, no two are alike. Each one differs in the way that it balances local control against statewide objectives.

All states have systems of providing aid for the current operating revenues of school districts.[8] States differ in regard to what expenditures they include in this system: some include only what they define as basic instructional expenditures, while others include expenditures for special programs, transportation, or other costs. In most states, the basic aid system provides the majority of all state aid to schools. The most popular approach used by states to provide basic support is the "foundation" program. Twenty-two states use this system, under which the state sets both a minimum expenditure level and a required tax effort and pays the difference between the expenditure level and the amount that districts raise at the required tax rate. The simplest versions of this system specify the minimum expenditure level in dollar-per-pupil terms; more complex versions specify the minimum in terms of dollars per classroom unit or in terms of pupil/teacher ratios and minimum statewide salary schedules.

In 10 states, the basic aid program is some form of a "guaranteed tax base" approach. Under this system, the state specifies a rate at which it will match local taxes; the rate varies inversely with the wealth of school districts. The state essentially allows school districts to behave as if they had the wealth of some designated district – typically the district of average wealth. The basic difference between this approach and the foundation program is that the state does not specify the spending level beyond which state aid will no longer be available. In any case, because of other restrictions, *no* state aid system is open-ended.

Fourteen states combine these two approaches into multiple tiers, usually by providing a guaranteed tax base on top of a foundation program. The purpose of this combined approach is to specify a minimum spending level, with an associated requirement of a minimum tax effort, while helping to equalize the ability of districts to provide funds beyond the minimum level. Multi-tiered systems permit the state to meet its objectives of adequacy and equity while also promoting local control, at least over spending.

The states also use a number of different approaches in providing support for such high-cost programs as special education, compensatory education, and bilingual education. Twenty-seven states treat such programs categorically (separate from the basic aid program). These states tend to provide either a fixed amount per pupil or a percentage of the excess cost of providing such services. The other states integrate the funding of special, high-cost programs into the basic aid program through the use of pupil weights or classroom-unit factors. Under these approaches, either the number of pupils in a high-cost program is weighted to reflect the relationship between the cost of the special program and the cost of the regular program or the number of pupils eligible to be counted as a classroom unit is lower for special programs than for the basic program.

In recent years, most states have not changed the structure of their school finance systems as frequently as they did between 1970 and 1980. Arkansas, West Virginia, and Wyoming were required to change their school finance systems as a result of court action; prior to 1980 only four other states had been required to change their school finance systems as a result of court intervention: California, Connecticut, New Jersey, and Washington. Arkansas incorporated a pupil-weighted system into its foundation program and required that a large portion of new state funds be used for teacher salaries; West Virginia has embarked on a long-term program to upgrade and equalize school resources, including teacher salaries, pupil/teacher ratios, materials, and facilities; Wyoming now uses a "recapture" procedure, under which local funds above a certain level are returned to the state (rather than the property tax rate being lowered), in order to deal with the problems caused by enormous wealth

Table 2. Annual Rates of Increase in Different Taxes Between 1973 and 1981

Period	Type of Tax			
	Property %	Sales %	State Income %	Federal Income %
1973-78	7.9	12.3	13.3	11.9
1978-81	4.0	9.6	12.0	15.4

Source: *Significant Features of Fiscal Federalism in 1981-82* (Washington, D.C.: Advisory Commission on Intergovernmental Relations, April 1983).

disparities among school districts in the state.

This year Texas revamped its entire system of state aid – replacing a foundation program driven by pupil/teacher ratios and a statewide salary schedule with a pupil-weighted system. In 1981 Oklahoma also incorporated a pupil-weighted approach into its school finance system, using a factor that weights pupils in small districts more heavily. Two states have modified the way they determine the relative wealth of school districts: income, in addition to property wealth, is now used in Vermont and Pennsylvania. Prior to 1980, Connecticut, Kansas, Maryland, Missouri, Rhode Island, and Virginia combined income and property in measuring the fiscal capacity of school districts. New Hampshire is considering this approach. Three states incorporated "price indices" into their formulas as a means of recognizing regional variations in costs: Missouri, Ohio, and Texas. Alaska and Florida already used such a factor; Illinois is considering using it.

Finally, several states have begun to provide large amounts of funds for teacher salaries.[9] In some states, all teacher salaries are being raised (e.g., North Carolina, South Carolina, and Texas); in a few states, aid is provided to teachers based on a merit or a career ladder approach (e.g., California, Florida, and Tennessee); and in some states, teacher salaries are being equalized across the state (e.g., Delaware, Oklahoma, and West Virginia).

STATES AND TEACHER SALARIES

Traditionally, states have played only a small role in setting the level of teacher salaries. In a few states, the legislature establishes a statewide minimum salary schedule, though districts are free to supplement the minimum levels specified. States may require that teachers be paid in relation to their training and/or experience, although actual salary levels will be determined by local school districts. In some states, a portion of the new funds provided by the state in a given year may be earmarked for salary increases. The introduction of state-supported merit pay or career ladder plans is likely to result in higher salaries for some teachers. Finally, because state aid is such a large proportion of all school revenue in many states, the availability of state aid has a large indirect impact on teacher salaries.

The number of teachers is one factor that affects teacher salary levels. During the last five years enrollments have continued to decline in many states; in some states, however, the number of teachers has continued to increase, while in other states the number of teachers has just begun to decline. The number of teachers decreased between 1978-79 and 1983-84 in 29 states, all of which had declining enrollments (Table 3). Among the remaining 21 states, which registered increases in the number of teachers, enrollments declined in 15 of them. In almost all cases where both enrollments and the number of teachers decreased, enrollments declined at a faster rate than the number of

Table 3. Distribution of States Based on the Relationship Between Changes in Pupil Enrollment and Changes in the Number of Teachers Between 1978-79 and 1983-84

	Change in Enrollment				
	Increase	Decrease (%)			
		0-4.9	5.0-9.9	10.0-14.9	15.0-19.9
Change in Number of Teachers					
Increase (%)					
More than 9.9	4	3	-	-	-
5.0-9.9	1	5	2	1	-
0.0-4.9	1	1	3	-	-
Decrease (%)					
0.0-4.9	-	1	7	3	-
5.0-9.9	-	1	1	7	2
10.0-14.9	-	-	-	2	3
More than 14.9	-	-	-	1	1

Source: John Augenblick, *The States and Teacher Salaries* (Denver: Augenblick, Van de Water & Associates, September 1984).

Table 4. Distribution of States Based on the Relationship Between 1983-84 Average Salary and Change in Average Salary Between 1978-79 and 1983-84

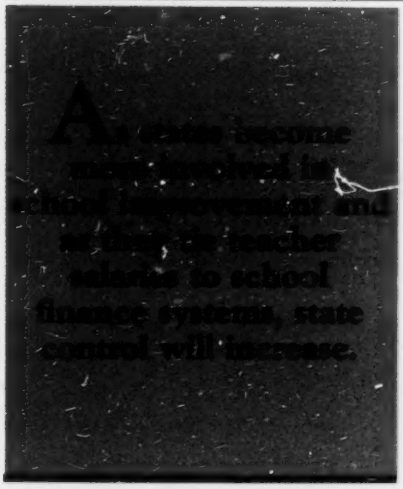
	Percent Change in Average Salary: 1978-79 to 1983-84			
	30-39	40-49	50-59	More Than 59
1983-84 Average Salary				
Less than $16,000	-	1	-	-
$16,000-$17,999	3	4	2	-
$18,000-$19,999	2	5	4	-
$20,000-$21,999	2	3	5	1
$22,000-$23,999	1	4	3	-
More than $23,999	1	5	2	2

Source: John Augenblick, *The States and Teacher Salaries* (Denver: Augenblick, Van de Water & Associates, September 1984).

Table 5. Distribution of States Based on the Relationship Between the Total Amount Spent per Teacher and The Percentage of Spending Devoted to Teacher Salaries, 1983-84

	Average Expenditure per Teacher			
	Less Than $40,000	$40,000-$49,999	$50,000-$59,999	More Than $59,999
Percentage of Expenditures for Teacher Salaries				
Less than 36	-	-	-	3
36-39	-	1	5	3
39-42	-	8	6	4
42-45	3	10	3	-
More than 45	2	2	-	-

Source: John Augenblick, *The States and Teacher Salaries* (Denver: Augenblick, Van de Water & Associates, September 1984).



teachers. Consequently, pupil/teacher ratios have decreased during the past five years. At the same time, types of special services available to pupils have increased.

During the last five years the salary of the average teacher has increased. However, teacher salaries still vary greatly from state to state. As shown in Table 4, salaries in some states have increased rapidly during the last five years, while in other states they have increased much more slowly. In eight states (Maine, Mississippi, New Hampshire, North Carolina, South Carolina, South Dakota, Tennessee, and West Virginia), salaries have increased slowly (less than 50% over the five-year period) and remain relatively low (an average salary of less than $18,000). Many of these states took action last year to rectify this situation. In two states (Arkansas and Vermont), salaries remain low, though they have been rising rapidly. In 11 states (California, Connecticut, Hawaii, Illinois, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, and Washington), salaries are relatively high (an average salary of more than $22,000), despite the fact that they have been rising slowly during the last five years. Finally, in seven states (Alaska, Colorado, Michigan, Nevada, Oregon, Wisconsin, and Wyoming), salaries are relatively high, and they have been rising rapidly.

Despite the fact that pupil/teacher ratios have decreased during the past five years, the percentage of all expenditures spent on classroom teachers has also decreased during the same period. Between 1978-79 and 1983-84 expenditures for classroom teachers declined from 43.1% to 40.4% of all current operating expenditures. This reflects an interaction among the following factors:

- the number of teachers decreased by 3.6%;
- the average teacher salary increased by 46.2%; and
- total expenditures increased by 50.4%.

Clearly, even as more money has been provided for education, a larger proportion of it is being used for non-teacher-related expenditures. As shown in Table 5, the higher the spending per teacher, the lower the average percentage that goes to salaries for teachers. Of the 12 states with a relatively low percentage of all expenditures devoted to teachers (less than 39%), 11 have relatively high total spending levels (more than $50,000 per teacher). Of the 20 states with a relatively high percentage of all expenditures devoted to teachers (more than 42%), 17 have relatively low total spending levels (less than $50,000 per teacher).

FUTURE OF SCHOOL FINANCE IN THE STATES

There is no "perfect" school finance formula; in fact, no one approach is universally accepted. Systems of school finance are designed to accomplish certain broad objectives, which vary among the states, and to respond to the history, the economics, and the political issues of each state. Each system of school finance reflects a political balance among:

- the availability of state support and local support;
- the achievement of statewide equity and local control;
- the need to fund "basic" services and special, high-cost services;
- the need to support personnel costs and nonpersonnel costs;
- the desire to reimburse districts for actual expenditures and to provide incentives to improve quality or efficiency;
- the need to support current expenditures and capital expenditures;
- the desire to support public and private schools; and
- the desire to support elementary/secondary education and higher education.

In the future, states are likely to move in the following directions, though the extent of movement in a particular state will depend on the nature of its current aid system, the level of support it provides, and its political and economic climates.

1. State support for schools will stabilize or decline over the next few years, as local support increases. In a few states with very low levels of state support, state education aid may increase; by the same token, state aid could deteriorate in those states now providing between 50% and 75% of all support.

2. Property taxes will increase. Property taxes are a stable source of revenue, and their use, when combined with other taxes, will assure that adequate revenue is available for education. However, states will have to improve their property assessment systems in order to increase their reliance on property taxes.

3. States will make their school finance formulas more sensitive to teacher salary levels. They will do this in order to insure that salaries are adequate and to promote greater equity in salaries across school districts.

4. States will use their school finance systems to provide incentives for school improvement. Some portion of state aid will be distributed in response to school district behavior. Although this is not a new concept, the incentives will be explicit and school districts will have some choice about compliance.

5. Multi-tiered formulas will become more common; states will use such formulas to promote a wide range of objectives that cannot be promoted through use of a single formula. Different approaches will be used to promote adequacy, local choice, and improvements in quality.

6. A higher proportion of expenditures will be consumed by teachers, reversing the trend of the last decade. This will happen despite the use of new technological tools, because teacher salaries will rise and pupil/teacher ratios will not rise as enrollments begin to increase.

7. Spending variations among the states will be reduced, as low-spending regions continue to invest in education. Spending variations within states will be reduced, as teacher salary levels are equalized over time.

8. Local control over spending will be reduced. As states become more involved in school improvement and as they tie teacher salaries to school finance systems, state control will increase.

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1. *Estimates of School Statistics 1982-83* and *Estimates of School Statistics, 1978-79* (Washington, D.C.: National Education Association, January 1979 and April 1984).

2. *State Support for Education, 1982-83* (Denver: Augenblick, Van de Water & Associates, December 1983).

3. Based on data contained in *Estimates of School Statistics, 1983-84* (Washington, D.C.: National Education Association, April 1984). Data for Indiana were missing.

4. John Augenblick, "School Finance in the 1980s, Part II: State Issues for the 1980s," in *Spectrum* (Arlington, Va.: Educational Research Service, Summer 1984).

5. John Augenblick, "Property Taxes and the Future of School Finance" (Denver: Augenblick, Van de Water & Associates, February 1984).

6. *Significant Features of Fiscal Federalism in 1981-82* (Washington, D.C.: Advisory Commission on Intergovernmental Relations, April 1983).

7. Augenblick, "Property Taxes. . . ."

8. The discussion in this section is based on information contained in John Augenblick, "How Do School Finance Systems Work?" (Denver: Augenblick, Van de Water & Associates, January 1984).

9. See Allan Odden, *Education Finance in the States: 1984* (Denver: Education Commission of the States, June 1984) for a discussion of the approaches some states are using to improve teacher salaries and the quality of the educational system. □